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# INDIVIDUAL MYTHS AND COLLECTIVE REALITIES: THE EMERGENCE OF THEORY "C" MANAGEMENT

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Declining U.S. productivity rates and Japanese competition have forced a reexamination of traditional American ways of managing people. But what advice does the senior manager get about human resource management? On the one hand (in each manager's junk mail) comes a barrage of invitations to seminars with topics like: "Improving Productivity Through Performance Appraisal" or "Interviewing Skills for the Productive Manager". A major growth industry of consultants and academicians offers to refine traditional personnel systems as an answer to the present crisis. On the other hand, and often in this journal, managers learn about successful organizations abandoning traditional personnel policies and experimenting with alternative ways of managing people. For example, General Electric, the Dana Corporation, and TRW have plants where every worker is paid the same bonus each month based on organization-wide productivity.[1] In several new plants, General Motors organizes its workers into production teams with elected leaders.[2] Bill Ouchi's widely read book about Theory Z reminded American managers that Japanese firms emphasize group decision making and take a decade to select managers for promotion beyond their peers.[3] According to Ouchi, IBM, Hewlett-Packard, Kodak, and other successful U.S. firms have taken a similar approach.

The contrast between these two approaches is striking. Traditional U.S. personnel policies like performance appraisal and selection interviews emphasize the individual. However, most of the widely publicized and successful innovations deal with people in groups -- they emphasize the collective.

This contrast reflects the hybrid nature of "human resource management", (as "personnel administration has come to be called, as it has grown in influence since the Civil Rights Act of 1964). The field includes efforts both to improve mainstream personnel practices and to understand human behavior in organizations. Unfortunately for traditional personnel approaches the behavorial and economic

research on organizations fundamentally contradicts the individualistic premises of existing personnel policies and supports the collective nature of organizational behavior. For example, performance in organizations is highly interdependent, not individual. Moreover, membership in collective demographic groups such as sex, race, age, and educational level, rather than individual behavior, predicts most dependably personnel decisions. Finally, when it comes to pay, performance appraisal and promotion, most people (with similar backgrounds) are treated alike, that is collectively. Not surprisingly, current innovations seek to manage people more consistently with the collective nature of organizations and strive to elicit the cooperative motivation so necessary for the success of collective enterprises.

Continuing the convention recently revived by Ouchi for labelling fundamentally different approaches to thinking about human resource management, cooperative organizations may be said to function according to the premises of "Theory C". Incorporating elements of McGregor and Ouchi, but pushing their insights to an extreme, Theory C provides a polar opposite in human resource management to traditional U.S. policies.

The purpose of this article is first to point out the vast gap between myth and reality as traditional efforts force an individualistic philosophy of personnel administration on inherently collective organizations. This forced fit has almost certainly contributed to the current U.S. crisis in productivity and innovation. Second, after reviewing the values implicit in both myth and reality, the article closes with a vision of human resource management according to Theory C as a guide to senior managers who choose to design cooperative organizations.

Mainstream Myths of Personnel Administration

1. Large Employers Practice Human Resource Planning. This current assertion is supported by two sure-fire signs of trouble -- a new professional society and a new journal -- both incorporating "Human Resource Planning" in their titles. Unfortunately, human resource planning just doesn't carry much clout in practice. Two years ago, for example, we studied the human resource planning efforts of three large private sector employers. The human resource considerations were tangential to the long-range planning effort in two of the three firms, despite their reputations for sophistication in this field. For example, if divisional human resource projections in one company failed to conform with the financial projections of corporate managers, the human resource planning staff simply changed their numbers at corporate headquarters. The new numbers were never even sent back to the divisions, so it is difficult to imagine how the final "human resource plan" at headquarters affected operations in the division. The financial plan in the second firm preceded the human resource plan each year, with no provision for human resource considerations to feed back into financial planning. The third firm did give substantial power to its human resource staff and, interestingly enough, it was one of Ouchi's Theory Z firms.

2. Large Employers Recruit Widely for the Best People Available. Anyone who has ever looked for or filled a job recognizes the hyperbole here. Only the most difficult jobs to fill ever even get wide publicity -- the lowest-paid, most menial jobs and the highest-paid, most prestigious positions. Moreover, almost all new hires in business are made by informal means -- word of mouth, personal contacts, and special school-employer relationships built up over time. For example, even in jobs with high demand such as data processing and engineering professionals, personal contacts are the dominant means by which people learn about jobs.[4] So-called "head

hunters", the consulting firms, merely reinforce these networks of personal contacts with the addition of a placement fee.

As labor economists note, most jobs are filled by large employers in the labor market within the organization -- the internal labor market.[5] Jobs are filled from among current employees according to well-known, usually formalized rules. For example, machine operators are promoted from expediters, setup workers for several machines are promoted from current operators. However, internal labor markets only display such vertical movement through promotion in the primary labor market (typically large manufacturing concerns). In the secondary labor market (hotels, dry cleaners, and other servies, and in almost all jobs performed by women) there is little promotion or upward mobility. Jobs exist at one level and are filled externally by people who have worked in similar jobs.

Thus the reality of recruiting is a closed process. There is not an open market for labor. The best predictor of the job you will have next is the job you have now.

3. Psychological Testing: The Selection of the Best Person for the Job. The mainstay of industrial psychology -- that is, full-time psychologists on the staff of large work organizations -- has long been the development and administration of standardized tests of ability and personality to select from many job applicants the successful candidate.

As present, very few large employers rely heavily on such tests, and for the most compelling of reasons. With rare exceptions, the tests don't predict objective measures of performance on the job. The Supreme Court in its 1971 Griggs v. Duke Power decision forbidding the casual use of high school diplomas in hiring by extension nearly eliminated testing as an HRM system.[6] The Supreme Court, in effect, required some evidence of the relation between a person's score on a test and their subsequent performance on the job. In the past, few employers bothered to check whether their testing programs selected applicants who performed any better on the

job than applicants who failed the test. However, one dependable result of many tests was the selection of fewer blacks, females, and other minorities. The reasons for such discriminatory impact of test scores are multiple and poorly understood, but the result from the employer's perspective was a relatively homogeneous white male workforce in the permanent, primary labor-market jobs and the relegation of minority groups and women to secondary labor-market jobs with low pay and undesirable working conditions.

Psychological research had questioned the fundamental assumption of employment testing long before the government intervened. For example, Water Mischel, a Stanford professor, reviewed the evidence available in the mid-60s and concluded that personality tests rarely predicted specific behavior in any situation, even the most trivial.[7] Despite the preponderance of evidence, many industrial psychologists to this day use such personality tests to advise employers in the selection of top managers. There the likelihood of complaint and lawsuits are small. By contrast, the threat of class-action suits or debarment from federal contracts based on the absence of evidence of differences in job performance enforced by the Department of Labor and the Equal Employment Opportunity Commission has terminated most widespread testing at lower levels.

4. Never Hire Anybody Without an Interview: Face-to-Face Contact is the Best Test of Character. There is no evidence that the typical manager or personnel department clerk learns anything about job applicants in an interview that will predict their success on the job. Reviews of massive evidence in support of this proposition are prepared every few years to no avail.[8] Nontheless the practice persists.

The reasons for interviewing a potential subordinate are obvious, but have nothing to do with job performance. An interview allows the boss to determine if he or she would enjoy working with the applicant. Do they share common interests and philosophies about the job? In addition, as a ritual, the interview makes

clear, from the onset, the power relationship between the boss and the subordinate. Such a personal power relationship usually lasts as long as those two people work in the same organization.

The equally obvious impact of interviews is the selection of candidates who are most similar to the interviewer on all dimensions including the illegal grounds of race, sex, and age. The interview is probably the most discriminatory and most widespread employment test in the American economy.

5. Job Evaluation Plans Determine Objectively How Much the Holder of a Given Job Should be Paid. Like so many other HRM systems, job evaluation blossomed under government pressure during World War II. Salaries had to be set without allowing strikes during a war-induced, full-employment economy. Various systems for assigning value (points) to jobs based on job characteristics (factors) such as responsibility, effort and skill emerged. Of course, the individual pay of each worker was determined by other facts such as his or her length of time on the job. Today such systems still determine in an allegedly objective way how much a given job is worth.

Recently one prominent consultant described the "scientific basis" of job-evaluation systems as follows: "People only notice a substantial (about 15%) change in any physical stimulus -- light, heat, and noise. Smaller differences are not much noticed. Therefore, all the complicated steps and grades in our job evaluation system have always been based on 15% increments."

The fallacy in the consultant's reasoning is apparent. Here is a system designed to measure objective job content, but based instead on workers' subjective perceptions of pay levels. Therein lies the empirical refutation of the job-evaluation myth. At bottom, the plans reflect, as accurately as possible, the shared norms within the workplace about the relative importance or value of different jobs. No competent job-evaluation practitioner would propose to management a new pay structure based on "scientific job evaluation" without first testing it and modifying it against the subjective opinions and feelings of the workers. A committee of workers is usually

convened for exactly that purpose. If the results of the "scientific" and "objective" job evaluation do not closely parallel the current ranking of jobs, then the job evaluations are reworked to fit current pay levels. As one consultant commented recently, "If the study results call for pay levels that don't fit the current salaries, then our action plan is clear. We 'fudge' the results of the study."

Yet the next few years promise a dramatic defense of job evaluation under the impetus of the Equal Employment Opportunity Commission. The Commission is worried because the subjective norms of our culture have always assigned higher pay levels to male jobs than to female jobs. Women's rights activists hope that job evaluation plans will yield equal pay for jobs of comparable ("objective") worth. However, the Commission is backing a poor prospect to fight discimination because job evaluation simply routinizes cultural, often discriminatory, stereotypes of what given jobs are worth. In a recent court case in Denver, janitors (men) in a hoptial earned more under a job-evaluation plan than did nurses (women). Because of the "objective" nature of the salary plan, that is, based on rates of pay in the labor market, the Court upheld the pay differential. However, the labor market simply reflects current patterns of discrimination against women and minorities. Job evaluation gives an "objective" veneer to these subjective prejudices.

<u>6. Training Prepares People to Succeed at Jobs</u>. Training, especially for managers and supervisors, is a multi-billion dollar industry. The exact total is difficult to estimate because few employers account for the total costs of training. Moreover, the author's recent visits to large private-sector employers suggests that a vast increase in training is to occur, especially for managers. However, repeated studies by labor economists show that people learn most of their specific skills <u>on the job</u> and not in training.[9] Moreover, employers rarely try to assess the economic payoff of training.[10] At best, they ask the participants if they enjoyed the training. Outside of an occasional academic paper, I have never in practice found a training program's costs evaluated against its impact on production costs or sales

revenues. The primary function of training, especially managerial training or general skills training, is to give a credential. The credential, much like an MBA degree, simplifies the employer's search for candidates. There is little evidence that such general training improves performance.

7. Performance Appraisal is Necessary to Reward Effective Workers Performance appraisal, most frequently, involves a yearly interview by a manager with his or her subordinates to review the subordinate's behavior, based on a written form designed by the personnel department. The results of the appraisal to varying degrees determine (or at minimum provide the legitimacy for) the subordinate's subsequent salary increases and chances for promotion.

The practice of performance appraisal rests on five assumptions, all either refuted or challenged by current research.[11] Performance appraisal assumes that performance is:

1. objective
2. individual
3. personally-controlled
4. variable across people
5. single-dimensional

Yet current research shows a strong subjective component to performance. People get lower performance ratings, regardless of their behavior, under each of the following conditions: if their boss is of a different race; if they are new on the job; if their coworkers are rated poorly; or (and especially) if their sex is not "appropriate" for their job, for example, a woman in management. Moreover, the luck of the draw in bosses also affects each person's appraisal. Supervisors who are male compared to female, like supervisors oriented towards "production" rather than towards people, both tend to rate all their subordinates as poor performers.

The remaining assumptions of performance appraisal are equally shaky. Most behavorial-science researchers recognize performance, at least in work organizations, largely as an interdependent product of the efforts of many people. Likewise performance is both subject to countless forces outside the individual's control, and also comprised of many dimensions which rarely vary together in any simple way. As a

practical reflection of the reality of performance in organizations, most people in any job category are usually rated the same regardless of pressures from the personnel department to make greater distinctions among them -- for example, by using a bell-shaped curve.

8. Merit Salary Plans Reward Top Performers. Merit salary refers to the practice of giving workers (usually managers and other nonunionized people) different-sized pay raises (usually each year) to reward them for performance. The alternative is an across-the-board percentage increase for all workers.

Given the preceding discussion about performance as a subjective concept, it's clear that there's less to merit salary plans than meets the eye. In fact, Fred Foulkes surveyed large nonunion companies (many of whom advocate merit salary) and found a large, presumably cost-of-living increase for all workers.[12] The merit component of raises is usually trivial. In fact, almost all workers got the same "average" increase. In the present author's recent consulting experience, plus or minus 2% has been the typical spread for merit raises. For a professional earning $20,000, merit salary meant that something like $400 a year separated the "best" and the "worst" performers. Such small differences in merit raise increases testify to the lack of confidence managers have in their own ability to distinguish objective performance differences among their subordinates. Most employers defend merit and yet concurrently refuse to allow workers to know what salary increases are given to their coworkers. The reason for pay secrecy most frequently cited to the author by managers in classes on compensation is their inability to defend their subjective judgements.

9. Promotions Are Made from Within. Most large employers pride themselves on promoting people from within the ranks of current workers. What those words reflected historically in the U.S. was the case of the bank teller rising up through the ranks to become president. The advantages of this organizational practice in terms of worker commitment and loyalty to the organization are obvious. In a recent consulting assignment by the author to review management development practices in large

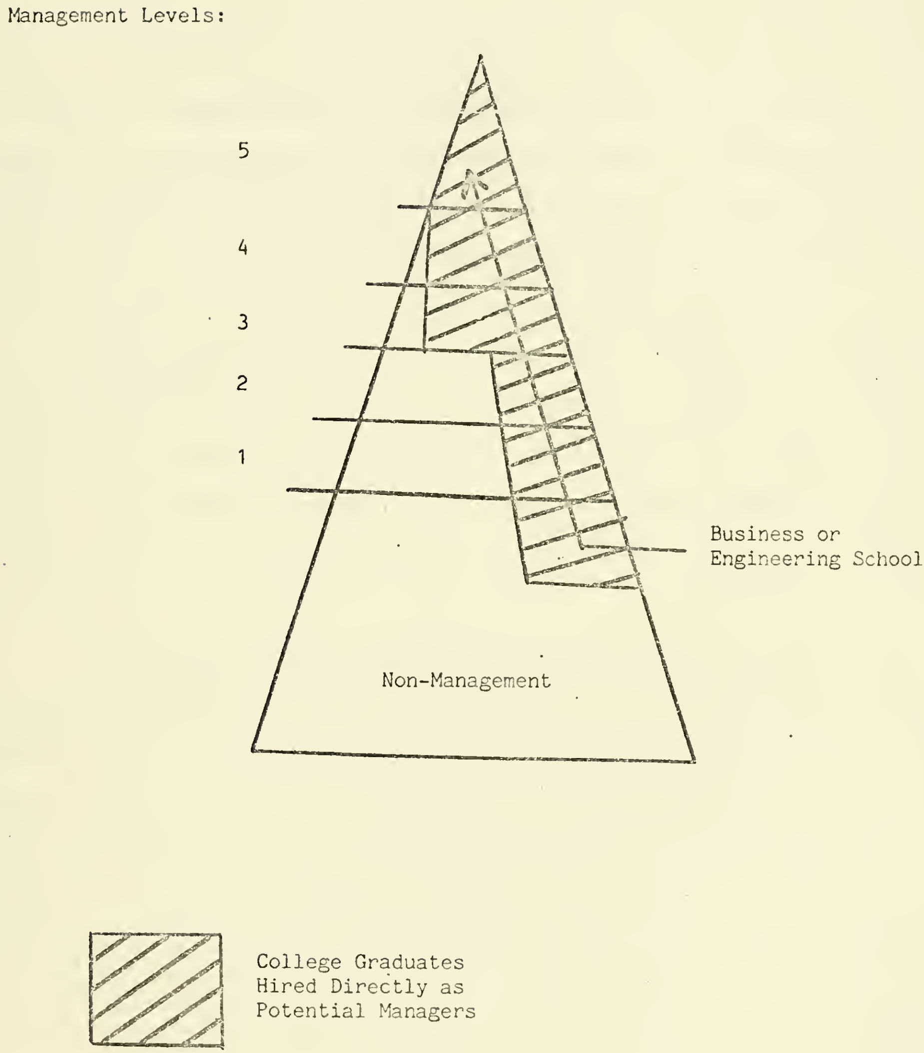
private sector employers in the U.S., the most impressive finding was the absence of promotion from within. While a few, very highly publicized individuals still move from the bottom of the organization to the top, the regular practices of hiring, assignment and promotion in large organizations prevent such mobility.

Typically organizations promote managers from two sources, depending on the job to be filled. On the one hand, first-level managers -- usually called foremen or supervisors -- are promoted from among the highest-skilled, highest-paid workers to be supervised. Such blue-collar workers are almost never promoted more than one or two levels into the managerial hierarchy. Moreover, given the traditional job structures in an internal labor market, the holders of most jobs will never reach the high-skill, high-pay jobs from which supervisors are promoted.

On the other hand, graduates of college, especially professional schools such as engineering and business, are hired by large employers not as managers, but into special positions at or just below management levels. Formerly called trainees, they now have newer titles to satisfy the aspirations of recent graduates for immediate job responsibility -- budget analyst, assistant store or project manager. These newly-hired college graduates, after a year or two of exposure to organizational routines, are usually promoted promptly to management (Figure 1). Almost everyone in this group becomes a manager. The typical rate for companies was 70-80%. "Promotion from within" therefore means that the new manager was routinely promoted from a non-management job, even if he or she held the job for a very short time.

Figure 1

PROMOTION FROM WITHIN



Assumptions of Traditional Personnel Administration

The purpose of personnel policies is typically stated at least at the managerial level as follows: "We need to identify and develop those few key people who will make the major decisions affecting this firm's profitability in the 1990s". The traditional or mythical personnel policies just reviewed are geared towards these "water walkers", "stars", or "fast trackers" as they are variously called. Increasingly the same personnel systems are being extended to or advocated for nonmanagerial workers as a means to increase productivity. The image of the water walker and the nine myths reflect a world view embodying at least three principal assumptions.[13]

1. The Individual as the Unit of Action. Individual people have their performance appraised, and receive their own "merit" increase. The assumption is that action within organizations can be meaningfully broken up and isolated into individual contributions. Groups, committees, task forces, departments and the like may do the work of formal organizations, but personnel administration deals with each member separately.

2. Wide Variance in the Distribution of Ability. Running through these personnel practices is an assumed distribution of talent in the population, whether the population is all the electrical engineers graduating in one year as the target for recruitment or just the five department heads reporting to a manager as the object of performance appraisal. Always the purpose is to find the highly able, motivated few; the large remainder is assumed to be inferior. Since there is no question about the existence of some individual differences, the key question is how much difference. If most of the electrical engineers can do the job, then the only reason to spend money on recruiting is to attract the number required. Likewise for the performance appraisal. If all of the people are capable of doing the next higher job, then no time should be wasted on judging their differences. Yet much of the emphasis in human resource management is precisely on identifying differences -- in testing, interviewing, and performance appraisal. The policies assume vast differences

in ability, sufficient to justify both their expense and any negative consequences on the majority who are not selected.

3. Personal Causation of Behavior. Psychology teaches that all behavior is a function of both the person and the situation, yet these myths emphasize the internal and personal causes of performance in organizations over external and situational causes. Rarely do performance appraisal forms quantify the difficulty of the job performed or the special circumstances of the situation confronting an individual. The policies measure instead constant characteristics of the persons which are assumed to lead to similar results in all situations, e.g. "initiative" and "dependability."

There are other assumptions running through current human resource practices, but for purposes of clarity, this argument will remain confined to the three commonalities discussed above.

## Realities of Work

By contrast to these three assumptions, the realities of large work organizations can best be described by three alternative generalizations.

1. Collective Treatment. There is virtually no argument that organizational work is collective. From Rothlisberger and Dickson through more recent research by Seashore and by Likert, the influence of the group on performance is clear. People in organizations are most frequently known and, at least informally, judged as members of work groups.

Equally clear is treatment based on membership in larger collectivities, such as race, sex, age, and educational level. These demographic characteristics strongly predict performance appraisals, pay levels, and opportunities for promotion. In every organization there are occupations, job levels, and sometimes whole departments, which are occupied by members of a certain sex or race. For example, in the author's own organization, with very few exceptions, the professors are white males, the secretaries are young, white females, and the minorities are service workers who

who appear in the offices only at night as cleaners, or in the faculty club restaurant.

2. Comparability of Talent. People experience work as egalitarian. When asked how they perform, about 75% of all workers surveyed by the author or reported by others always respond "above average" or better. There is nothing like the bell-shaped curve of individual performance in this most basic of distributions. When supervisors rate the performance of subordinates, a similar large majority are described as above average or better. Determined efforts by personnel departments and consultants have never overcome that tendency for long. Most people (including managers and professors) invariably learn to perform their jobs quite successfully, albeit after hiring. Not surprisingly, where workers belong to unions and thus have some control over personnel practices, they institute seniority as the basis for promotion. Seniority assumes that all workers are roughly equal in the ability to do the job. Indeed, performance appraisal systems are almost never applied to unionized workers.

3. Contextual Causation of Organizational Behavior. People also recognize real factors beyond their control at work. When asked their complaints about work in a recent national survey, most people cited "obstacles to getting the job done."[14] Two Texas researchers have corroborated the obvious fact of external causation in a series of experiments.[15] People perform more poorly when they have inadequate support in terms of information, tools and equipment, materials and supplies, and preparation time.

A more direct proof of this generalizaation is available. If you, the reader, will please stop for a moment and consider the last time someone told you that your performance was poor. What were the reasons for the behavior in question? Almost certainly the list of reasons will include many factors outside your control. Poor performance rarely results from inability alone.

On each of these three counts, then, the day-to-day reality of work contradicts the assumption underlying traditional U.S. personnel administration. Work is collective, not individual. Workers are comparable; they vary less in ability rather than more. And performance reflects more the impact of the context than of individual ability. What are the consequences for people caught in this contradiction?

Implications of the Contradiction Between Myth and Reality

How you feel about the myths depends very much on where you sit -- that is, whether you are a winner or a loser in the real world of organizations.

1. The Winners. For those who advance under the current mythology, the assumptions encourage self-confidence, a sense of worthiness, and social distance from non-winners. By official proclamation for winners (and the readers of this journal are in all probability winners), their success is a matter of personal ability and effort. The substantial financial rewards associated with success are therefore felt to be well-deserved. In addition, their substantial decision-making latitude can be justified not as a matter of personal prerogative, but as a necessity for the effectiveness of the organization. By contrast, winners have difficulty empathizing with the problems of others in the organization. After all, according to personnel policies, the relative disadvantage of non-winners largely reflects their limited ability and poor performance. As one early reviewer of this manuscript commented, "there is obviously a barrier of education, qualification, intelligence, attitudes, and aspirations separating hourly workers from others" (emphasis added).

Only gradually are the negative impacts of individualistic personnel systems on the winners -- for example, managers chosen for promotion, engineers rated highly -- beginning to surface. Even the winners recognize the random component in individualistic treatment. Although they may feel that their past success is deserved, managers always fear the "personal" or "political" judgements of their supervisors which may end their chances for advancement. They realize that only a very few can go all the way to the top. Members of the baby-boom generation in particular see many more

persons competing for promotional opportunities. The threat of acquisition by a new top management team in an unfriendly merger is one sure-fire way to bring these fears out into the open.

As a consequence, the winners must continuously manage their personal image and downplay their colleagues who are the competition. Sharing information, consensus decision making and team efforts -- all endorsed by most corporate philosophies -- are stamped out by the insecurity and competitive tactics generated by individualistic treatment.

Perhaps the major harm done to the winners by current personnel policies appears to be a lessening in their willingness to take risks. The reason for this impact is only gradually becoming clear. In hiring, promotion, and performance appraisal, negative information stands out and dominates most decision-making processes. Therefore, the winners emerging at the top of organizations are people who have never made glaring mistakes. To be sure, they may have one or two big successes and a couple of lucky breaks spread over a long career. Their more likely pattern of behavior is to have done pretty much what everyone else did (assuming they went to similar schools and were hired into the same job), but the winners are also the few who have never called negative attention to themselves. Almost by definition, they are disproportionately those who did not take chances.

2. The Losers. Unlike the generally positive psychological impact on the winners, the losers suffer from frustrated ambition, self-blame and withdrawal.[16] After all, in a merit-based system their failure is preety much their own fault. Since their organizational positions provide little intrinsic appeal from challenging work, participation in decision making, or identification with the leadership, those on the short end of personal decisions (and this is the vast majority at some point in time in every organization) are more likely to emphasize consumer pleasures and leisure-time activities over any satisfactions in the process of production. Is it any wonder that the "work ethic" is fading? With increasing frequency, personnel

systems inform workers that their productive effort does not deserve reward or recognition. The message of these personnel systems to workers is clear. "Find something else to occupy your interest, you are a failure at work."

3. The Society. Some impacts of the personnel myths affect everybody, independent of their personal fate at work. For example, when the impact of the current mythology on the majority of workers is considered, there seems little reason for surprise at the current concern over U.S. productivity. For almost all workers, the administration of personnel policy implies the discouraging message: you don't have what it takes and you aren't the key people we're looking to for decisions and direction. While the pamphlets from the corporate communications department may tout the contributions of all employees, the day-to-day application of personnel practices makes a more direct point.

The related national concern over industrial innovation may also result from these myths. By definition, innovation requires the willingness to take risks, an attitude stamped out by present personnel practices. Instead, as Hayes and Abernathy recently argued in this journal, current personnel practices emphasize short run, "bottom line" achievements.[17] The conservative pattern of capital investment in the U.S. -- emphasizing acquisitions and real estate over new plants and equipment -- is consistent as well with this present critique.

If the consequences of traditional personnel policies are this grim, it should come as no surprise that insightful managers are seeking a better way.

## Cooperative Innovations in Human Resource Management

Readers of this journal do not need complete descriptions of the innovations cited in the opening paragraphs of this article since numerous articles have already described their successes: organization-wide gainsharing plans,[18] new plant design,[19] and Japanese management style.[20] Most striking about these innovations taken as a group is their tendency toward an alternative set of assumptions about human nature.

These assumptions depart so far from traditional practice that they deserve a separate label.

Since McGregor first called attention to the importance of assumptions about managing people with his analysis of Theory X and Theory Y, and since Ouchi has labelled a partial implementation of these assumptions as Theory Z, a reasonable label is Theory C. The "C" stands for three assumptions about behavior in organizations: collective performance, comparable ability and contextual causality. Probably the best single label for this system of human resource management is cooperative. Repeatedly these innovations assume:

1. Organizational performance is collective;
2. People differ little and are comparable in ability;
3. Behavior is shaped by context.

The next few paragraphs will analyze each set of innovations in terms of Theory C.

To begin with, the several systems of organizational gainsharing illustrate these assumptions. Scanlon, Improshare, and Rucker Plans all pay each worker in a plant (or other, usually quite large organizational unit) a monthly bonus as a percentage of salary. All workers, often including managers and professionals, receive the same percentage regardless of how well they may have performed as individuals relative to some individual measure such as "standard" hours. Moreover, group decision making systems, to varying degrees in the three plans, complement this collective pay plan. Of the three, the Scanlon Plan puts most emphasis on such group decisions, and establishes a parallel, though advisory, production hierarchy of committees staffed in part by elected worker representatives.

Next, the new plants designed from the start with the assistance of behavioral scientists have all demonstrated a related but different sensitivity to Theory C assumptions. (Unfortunately, few have succeeded in implementing organization-wide gainsharing although most discuss the possibility). Almost all new plants design jobs for semiautonomous work teams so that team members can rotate among jobs and make decisions as a group. Status symbols such as assigned parking spaces, executive dining rooms, and dress codes are avoided. Workers are often paid on the basis of the number of jobs they are capable of performing rather than the job they currently hold. This so-called "pay for knowledge" system is usually supplemented with both training and job rotation with the objective of paying all the workers the same, top rate.

Finally, the Japanese culture represents the most widespread commitment to managing human resources as collectives. According to Ouchi's review, the much-heralded group or consensus system of managerial decision making is only the tip of an iceberg of collectivism. All workers in the major firms receive a substantial bonus each year, as much as 50% of salary, based on the firm's performance. Managers and their subordinates work in the same large room with few of the status symbols of the U.S. firm. Individual distinctions among a group of managers are made only after a long time, often ten years. As individuals, Japanese managers reportedly seem dull compared with their American counterparts, but the strength of the Japanese manager is the ability to manage groups.

The test of these three innovations to U.S. managers is inevitably their economic performance and the evidence is striking. The U.S. General Accounting Office recently surveyed twenty-four firms using organizational

gainsharing plans.[21] The average yearly productivity increase was 17%. Among firms using usch plans more than five years, the average productivity gain was 29%.

The evidence for the "new" plants is less extensive. Executives from General Motors have stated publicly: first, that their new plants are much more productive and second, that the entire Corporation is attempting to adopt similar management practices. While a few other firms have made similar statements, many of the firms experimenting with new plant designs prefer not to publicize their results. Many consider their innovations as proprietary business secrets giving them advantages over the competition.

The example of the Japanese economy is most dramatic. U.S. productivity increases average only one third of those of the Japanese.[22] Closer to home, the U.S. firms surveyed by Ouchi who have developed similar management systems to the Japanese (what Ouchi calls Theory Z firms) are well known for their economic performance: for example IBM, Hewlett Parkard and Kodak.

Despite the almost amazing effectiveness of Theory C innovations, however, no single firm has <u>fully</u> embodied Theory C assumptions. A Theory C organization would incorporate features from all three innovations into a total system of human resource management. After indicating the dimensions of a fully Theory C organization in the next section, the article will close with some reasons for the limited implementation of Theory C despite its comparative advantage.

<u>Theory "C"</u>

The various innovations in human resource management just reviewed present initial steps in the direction of a totally different cooperative form of work organization. In all probability, few of the managers implementing

these organizational reforms espouse the alternative assumptions of Theory C. Rather those innovators are practical people seeking pragmatic solutions to daily organizational problems. For example, the Scanlon Plan was developed in the Great U.S. Depression by a union leader to save a faltering steel plant. New plant designs grew out of behavioral science research in the 1950s and 1960s, and were first attempted in Scandinavia in tight labor markets. Japanese management evolved over centuries to meet the particular demands of a homogeneous, island nation. These seemingly unrelated innovations have converged on alternative social philosophy, labelled here as Theory "C".

The ideal Theory C organization embodies three principles of design:

1. Participative decision making;
2. Cooperative goal setting;
3. Collective distribution of rewards.

Clearly each principle represents a continuum along which organizations can vary.

Equally clear, traditional U.S. personnel policies contradict each principle. Traditional U.S. organizational practice emphasizes hierarchical decision making, managerial authority, and individual reward. Figure 2 lays out a range of practices for several human resource management functions. The practices cover the range from traditional U.S. policy through current innovations and culminate in an ideal Theory C practice. While no organization currently approaches the pure form of Theory C, the future will almost certainly bring continued exploration in each function of human resource management.

Some suggestions of the direction of this exploration can easily be outlined as follows:

1. Organizational Design. A growing consensus now questions the large number of management levels in U.S. firms. Moreover, as the baby boom now moves into its forties, a much larger group of middle managers will hit the choke point in the current narrow managerial hierarchy. A flatter hierarchy with more emphasis on lateral but developmental assignments is an obvious alternative.

2. Staffing. The pressure of EEO legislation has already led many firms to develop positive plans to utilize women and minorites more effectively. As the "baby bust" of the 70s creaties tight labor markets in the 90s, more firms will question current exclusionary practices of hiring, assignment, and promotion. Instead the emphasis will be on developing all the talents of the available workforce.

3. Directing. The cultural norms of a better educated and more cynical workforce have already created a new emphasis on "participative decision making" at all levels in organizations.

4. Developing. More and more employers have created their own in-house educational centers. Indeed, education may shift as a societal function in the 80s from the limited budgets of local communities more and more into private-sector hands. The challenge is how firms can avoid the debilitating effects of educational programs as credentialling devices.

5. Rewarding. As the most visible and easily manipulated practice, compensation has historically changed most easily--from day work to piece rates in the 1900s to standard hours in the 40s and 50s, and now increasingly towards fringe benefits. Experimentation with all forms of organization-wide gainsharing plans is flourishing along with interest in employee stock options.

6. Resolving Conflict. While managerial acceptance of unionization is unlikely until economic conditions recreate the worker unrest of the 1930s,

more and more employers are experimenting with unilaterally instituted procedures for responding to individual worker complaints. Indeed, the American Arbitration Association reports increasing use of its services by nonunion employees.

Thus continued progress towards Theory C appears inevitable. The question remains why, if Theory C so accurately builds on organizational realities, such progress has been so limited to date and why does it remain only a gradual trend in the foreseeable future. Indeed, the careful reader of Figure 2 will note that no U.S. employer currently relies on ideal Theory C practices in even one functional area of human resource management.

Problems with Theory C

Three serious problems face Theory C innovations, much less the total ideal type: internal resistance, short run economic pressures, and societal incompatibility.

The most frequent reason for the failure, curtailment, or reluctance to undertake Theory C innovations, in the author's experience, has been internal resistance by managers. Lower and middle level managers are threatened with a reduction of authority at best and outright displacement at worst. Reports of their resistance are routine in the literature of organizational development. Only very careful training and advance participation has overcome this obstacle. Likewise corporate compensation staff managers are the most frequent opponents of organizational gainsharing. Also, corporate industrial relations managers almost invariably oppose quality of work experiments with labor unions. The initiative for these innovations almost always come from the personnel, as opposed to labor relations staff, from outside consultants, or from line managers.

Human resource innovations fundamentally alter the power structure of

organizations. Indeed, human resource practices should always be analyzed in political terms, as the laws or government in work organizations. Human resource practices codify each organization's answers to the two fundamental political questions: Who makes decisions? And who gets benefits? As the first axiom of politics, change will always be resisted by the incumbents. To date the pressure of external events has only overcome internal resistance to Theory C in the few organizations described here.

The second problem facing Theory C comes precisely from external pressure, the need in the U.S. to demonstrate short run increases in profitability. All Theory C innovations presume organizational stability. Indeed, Ouchi points out that the so-called "Japanese" system of management only applies to a male minority of the Japanese workforce employed by large stable organizations in the core industry groups. The instability in demand for Japanese products is dealt with by smaller firms who subcontract to the major firms. In the subcontractors (where women are allowed to work), there is no lifetime employment and layoffs are frequent. Instability is a frequently cited reason for the failure of organizational development innovation, either in changes in the demand for products or in the turnover of top management.

Managers in the U.S. experience immense pressure to maximize short-term contribution to profit and this pressure further reduces the stable core where innovations are likely to succeed. For example, one highly successful organizational gain-sharing plant was closed in an economic downturn, at least in part, to avoid incurring the pending pension liability of a nearly-vested workforce. Despite the long-term potential of a highly committed workforce, short run cost pressures were decisive. Similar decisions to maximize short term economic return destroy the stability required for Theory C innovations.

The last problem with Theory C is societal incompatibility. Theory C assumptions are currently stamped out by a wide variety of cultural institu-

tions in the U.S. Grade school education in the U.S. begins the ritual of quarterly individual report cards and annual promotions in September. Professional schools in the U.S emphasize "games against nature" -- physical science, computer models, and prepackaged case studies. Few of the skills required to implement change or to gather information in a human organization are sought or taught. The educational pipeline is poorly suited to turning out Theory C top managers. Yet, unless top management values are congruent, Theory C innovations are doomed to a short life span. More generally, Theory C faces a middle management cadre and a workforce conditioned to question Theory C treatment.

The Japanese society provides some ray of hope at least on the educational problem. Their managers emerge from, if anything, a more individualistic and more competitive educational system. Yet they adapt to collective treatment apparently from the date of hire.

Other Japanese institutions are more obviously attuned to creating the areas of stability required for Theory C. Their companies are organized into trading groups to provide the possibility for buffering instability across industries as well as within a particular industry. By contrast, U.S. conglomerates have the same potential, but to date have used the flexibility to provide stable cash flows and not stable personnel staffing levels. Likewise, the Japanese government plays a much larger role in coordinating the efforts of its firms to avoid unnecessary competition and instability.

At bottom, however, the Japanese society provides an unhappy model for Theory C in the U.S. on two counts. First, and more obviously, the degree of cooperation between individuals, firms, and government agencies contradicts U.S. individualism too fundamentally. Long social evolution or sharp social upheaval would be required to create similar preconditions. Second, and usually overlooked, the scope of stability is unacceptably narrow for the U.S. -- women, immigrants, and people over 55 are excluded from employment in the stable sector of the Japanese economy.

They provide the buffer to absorb shifts in product demand. While the U.S. approximates the same solution with its primary and secondary labor markets, the U.S. made a commitment in the 1960s to include these groups in the mainstream of the U.S. economy. In a sense then, the U.S. will find it more difficult to establish the preconditions of Theory C because it has set its sights higher than the Japanese.

## Summary

The prospects for Theory C thus remain limited by a series of pressures internal and external to the organization. Yet Theory C sits at the end of the current hesitant path of innovation as the destination, clearly visible if unattainable at present: an ideal type. Continued progress towards the ideal is inevitable because the assumptions of Theory C come closer to organizational reality than does current personnel practice. Organizational behavior is collective; workers are comparable across a substantial range; and contextual factors play the dominant role in shaping results. In such a world, organizations should make decisions participatively, create goals cooperatively, and share rewards collectively. Cooperative organizations will outperform the competition. Therefore the future will find more innovation by insightful managers. They will see through the mythical veils of individualistic personnel policy, despite the distracting dazzle of managerial meritocracy, and perceive the fabric of collective reality. Wherever circumstances conspire to allow such innovators to implement their vision, Theory C will gradually grow both in the U.S., and perhaps more rapidly, around the world. The purpose of the present paper has been both to increase the frequency of such innovations by pointing out the gulf between individualistic myth and collective reality and to extend the reach of cooperative innovations in the direction of Theory C.

Figure 2

Alternative Human Resource Practices

| | Traditional U.S. Personnel Policies | Current Innovations | Possible Next Steps | Theory C Ideal Type |
|---|---|---|---|---|
| Designing Organizations | Hierarchical Narrow, Steep Multi-level | Fewer management levels Semi-autonomous work teams | Flat organization | Rotating workers through management positions |
| Staffing | Supervisory selection; Discriminatory testing & interviewing | Job posting Affirmative action | Bidding by Seniority | Peer selection decisions |
| | Informal personnel recruiting | Human Resource planning | Stabilizing production | Lifetime employment |
| Directing | Management discretion | Quality circles | Worker representatives at Board level | Elected managers |
| | Performance appraisal | Parallel hierarchies | | Worker self-management |
| Developing | Credentiallizing by general training | Job rotation | Managerial and technical apprenticeships | On the job learning by managers on rotational assignments |
| Rewarding | Job evaluation | Organizational gain sharing | Smaller pay differentials | Equal pay |
| | Merit pay | Worker Stock options | Employee stock ownership trusts | Worker ownership |
| Resolving Conflict | | | | |
| Non-union organization | Managerial judgement | Formal complaint systems, Employee assistance plans | Arbitration by outside neutral | Unionization; Legislation providing worker representation and outside arbitration |
| Union Organization | Arm's length bargaining | Quality of Work | Continuous meeting over wide range of topics | Union representation for managers and professionals |
| | Union avoided in new | Life Programs | | |

FOOTNOTES

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